

Message Text

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ACTION AID-05

INFO OCT-01 NEA-09 ISO-00 IGA-01 AGR-05 INT-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-01 CEA-01 L-02 H-01 EUR-12 IO-10

FEAE-00 OES-03 AEC-05 AECE-00 DOTE-00 /111 W

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P 070430Z JAN 75

FM AMEMBASSY KABUL

TO SECSTATE WASHDC PRIORITY 0902

C O N F I D E N T I A L SECTION 1 OF 2 KABUL 0109

E.O. 11652: GDS

TAGS: EFIN, AF

SUBJ: ECONOMIC CRISIS: REVIEW OF LDC BALANCE OF PAYMENTS
SITUATION (AFGHANISTAN)

REF: STATE 275634

1. THIS MESSAGE IN RESPONSE TO REFTEL. NOTE AFGHAN YEARS
1352, 1353 AND 1354 ARE USED AS DATA PERIODS FOR CY 1973,
1974 AND 1975. AFGHAN YEAR BEGINS MARCH 21, THUS FIGURES
COVER PERIOD MARCH 21, 1973 TO MARCH 21, 1976.

2. FOLLOWING IS RESPONSE REFTEL PARA 3.

A. EXPORTS (FOB) MILLIONS OF U.S. DOLLARS

1352 1353 1354

TOTAL 160 192 200

FRUIT, NUTS 71 72 68

NATURAL GAS 18 24 45

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RAW COTTON 30 36 30

B. IMPORTS (CIF)

TOTAL	-190	-226	-286
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1. FERTILIZER	0	8	8	13
2. PETROLEUM	8	9	26	
3. FOOD GRAINS	8	0	13	
4. SUGAR	14	28	57	

C. TRADE BALANCE	-30	-34	-86
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D. NET SERVICES	-16	-16	-17
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E.

AT TRANSFERS	42	42	42
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ERRORS, OMISSIONS	3	3	7
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F. CURRENT BALANCE	-1	-6	-54
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G. OFFICIAL CAPITAL (NET)	15	7	22
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1. US	11	10	8
2. OTHER DAC	-2	-2	-1
3. OPEC	0	0	0
4. COMMUNIST COUNTRIES	6	-1	15

H. PRIVATE CAPITAL (NET)	0	0	0
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I. OVERALL BALANCE	14	1	-32
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J. FINANCED BY

1. IMF OIL FACILITY	0	0	0
2. IMF-OTHER	2	0	0
3 OTHER SHORT-TERM BORROWING	0	0	0
4. CHANGE IN RESERVES	PLUS 13	PLUS 1	-12

K. DEBT SERVICE	-36	-44	26
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L. FOREIGN EXCHANGE RESERVES	69	70	58
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3. FOLLOWING IS RESPONSE REFTEL PARA 4.

A. (1) EXPORTS - POST ESTIMATES FOR FRUITS AND NUTS REFLECT HISTORICAL PRICE TRENDS. SINCE AFGHAN FRUITS AND NUTS GENERALLY NOT SORTED AND PROCESSED ACCORDING TO WORLD STANDARDS, PRICES

RECEIVED GENERALLY BELOW WORLD PRICES. FOR NATURAL GAS, GOA OFFICIALS EXPECT TO OBTAIN \$16 PER 1,000 CUBIC METERS. THIS

IS SEVEN-NINTHS PRICE IRANIANS RECEIVE FROM USSR SINCE AFGHAN GAS HAS APPROXIMATELY SEVEN-NINTHS CALORIC YIELD OF IRANIAN GAS. COTTON EXPORT PRICE ESTIMATED AROUND \$900 PER TON, SOMEWHAT LESS THAN REFTEL RECOMMENDED PRICE. THIS BASED ON GOA MINISTRY OF COMMERCE PROJECTIONS AND ON CURRENT FUTURES MARKETS.

2. IMPORTS - PETROLEUM IMPORT FIGURE BASED ON ESTIMATED \$100-125 PER METRIC TON. ASSUMPTION HERE IS THAT GASOLINE/ DIESEL PRICES ROUGHLY PROPORTIONATE TO CRUDE PRICES. SUGAR PRICE BASED ON GOA MINISTRY OF COMMERCE ESTIMATES OF CIF PRICE \$1100 PER METRIC TON FOR USSR SUGAR. POST CONCURS THIS FIGURE BASED ON RECENT TRENDS IN WORLD PRICES.

B. ANNUAL CHANGES IN VOLUME OF IMPORT/EXPORTS:

EXPORTS	1352	1353	1354	1352-1354
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FRUITS & NUTS (000'S OF MT)	99.00	99.00	105.00	PLUS 6.00
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NATURAL GAS (BILLIONS OF M 3)	2.75	2.80	2.80	PLUS 0.05
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RAW COTTON (THOUSANDS OF MT)	10.00	30.00	33.00	PLUS 23.00
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IMPORTS

FERTILIZER (000'S OF MT)	0	20	32	PLUS 32
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PETROLEUM (000'S OF MT)	210	220	225	PLUS 15
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FOOD GRAINS (000'S OF MT)	67	0	50	-75
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SUGAR (000'S OF MT)	51	52	52	PLUS 1
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C. AND D. ASSUMPTIONS AND ESTIMATES EXPLAINED PARA 3 ABOVE.

E. NEGATIVE

F. DATA SOURCES. ALL COMMODITY TRADE FIGURES FOR 1352 ARE THOSE OF THE MINISTRY OF COMMERCE AND THE CENTRAL STATISTICS OFFICE. THE COMMODITY TRADE FIGURES FOR 1353 ARE GENERALLY THOSE OF THE MINISTRY OF COMMERCE AND THE IMF RESIDE REPRESENTATIVE AND ARE BASED ON FIRST SIX-MONTH DATA PLUS ESTIMATES OF PRICES FOR PRO-

JECTED IMPORTS AND EXPORTS FOR REMAINDER OF YEAR. AS OF NOVEMBER 20, 1974, THE BANKING SYSTEM'S NET RESERVES (INCLUDING INCONVERTIBLE CURRENCY-PAK AND INDIAN RUPEES-, BILATERAL TRADE BALANCES AND USE OF IMF CREDIT) WERE ABOUT \$4 MILLION GREATER THAN AT BEGINNING OF 1353 YEAR. THERE IS GENERAL AGREEMENT THAT THIS PICTURE WILL NOT CHANGE MUCH BY END OF 1353 (MARCH 20, 1975) IF, HOWEVER, COMMERCIAL PURCHASES OF SUGAR OR WHEAT SHOULD BE MADE BEFORE END OF YEAR, A SIZEABLE DEFICIT COULD BE INCURRED. AT THE MOMENT THIS DOES NOT APPEAR LIKELY. BOTH THE IMF AND COMMERCE MINISTRY HAVE MADE PRELIMINARY TRADE PROJECTIONS FOR 1354. BOTH PROJECT EXPORTS AT ABOUT \$200 MILLION. BOTH PROJECT A \$30 MILLION INCREASE IN SUGAR IMPORTS. COMMERCE PROJECTS COMMERCIAL IMPORTS OF \$264 MILLION; IMF, \$221 MILLION. IMF PROJECTS AN OVERALL BALANCE OF PAYMENTS DEFICIT OF \$31 MILLION ON THE ASSUMPTION OF \$20 MILLION USSR DEBT SERVICING RELIEF. THE MAJOR DIFFERENCE IN PROJECTIONS IS ATTRIBUTABLE TO CALCULATIONS FOR PETROLEUM PRODUCTS (AFGHANISTAN DOES NOT IMPORT CRUDE PETROLEUM). IMF PROJECTS IMPORTS OF \$18 MILLION, UP FROM \$8 MILLION IN 1353; COMMERCE PROJECTS \$36 MILLION, UP FROM \$12 MILLION IN 1353, WITH PURCHASES OF ROUGHLY 240,000 TONS IN BOTH YEARS.

ESTIMATES OF TOTAL FOREIGN ASSISTANCE CAN NOT BE SUBSTANTIATED. THE UNDP 1973 ANNUAL REPORT PLACES
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TOTAL ASSISTANCE AT OVER \$90 MILLION IN 1973. THE IMF USES A FIGURE OF ABOUT \$20 MILLION LESS, WHICH IS SUPPOSED TO INCLUDE SOME TECHNICAL ASSISTANCE DIRECTLY RELATED TO PROJECTS. NOR CAN ONE PLACE MUCH CONFIDENCE EITHER IN LOAN AND GRANT FINANCED COMMODITY IMPORTS, OR IN NET TRANSFERS.

5. FOLLOWING ARE IN RESPONSE TO REFTEL PARA 5.

A. ESTIMATED GNP GROWTH RATES - IN 1352 GROWTH IN AFGHANISTAN'S REAL GNP WAS APPROXIMATELY 7 PERCENT. REAL GNP IS EXPECTED TO INCREASE BY 3 PERCENT IN 1353 AND 2 1/2 PERCENT IN 1354.

B. NEAR TERM IMPORT-EXPORT POLICIES. SUGAR, FERTILIZER AND PETROLEUM PRODUCTS ARE THE THREE IMPORTED COMMODITIES WHICH PRESENT GREAT PROBLEMS FOR THE GOA. SUGAR PRICES ARE ALREADY HEAVILY SUBSIDIZED (RETAIL PRICE APPROXIMATELY 42 CENTS PER KILOGRAM) AND WITH PRICES TO THE GOA FOR SOVIET SUGAR TO DOUBLE IN 1975 THE SUBSIDY WILL HAVE TO BE INCREASED 600 PERCENT TO MAINTAIN THE CURRENT RETAIL PRICE. LARGE CUT-BACKS IN SUGAR IMPORTS WOULD CAUSE A CONSIDERABLE AMOUNT

OF CONSUMER TURMOIL, AS WOULD SUBSTANTIAL PRICE INCREASES.

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ACTION AID-05

INFO OCT-01 NEA-09 ISO-00 IGA-01 AGR-05 INT-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-01 CEA-01 L-02 H-01 EUR-12 IO-10

FEAE-00 OES-03 AEC-05 AECE-00 DOTE-00 /111 W

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P 070430Z JAN 75

FM AMEMBASSY KABUL

TO SECSTATE WASHDC PRIORITY 0903

C O N F I D E N T I A L SECTION 2 OF 2 KABUL 0109

A MIDDLE COURSE WOULD BE TO HOLD THE QUANTITY OF SUGAR IMPORTS AT PRESENT LEVELS AND TO INCREASE PRICES OF THE RETAIL LEVEL TO A POINT WHICH WOULD STILL BE "TOLERABLE" TO THE CONSUMER. THE GOA CURRENTLY IS CONSIDERING A PRICE HIKE.

THE SALE OF FERTILIZER TO FARMERS IS ALSO HEAVILY SUBSIDIZED. A LOCAL UREA PLANT RECENTLY STARTED PRODUCTION, HOWEVER, AND WILL SUPPLY APPROXIMATELY 70 PERCENT OF THE COUNTRIES NEEDS WHEN OPERATING AT FULL CAPACITY. THE LOCAL PLANT TOOK NEARLY A DECADE TO BE COMPLETED AND WHILE THE GOA HAS PLANS FOR FURTHER EXPANDING LOCAL PRODUCTION, IT IS CLEAR THAT LARGE QUANTITIES OF FERTILIZER WILL HAVE TO BE IMPORTED IN THE SHORT RUN.

PETROLEUM CONSUMPTION IS NOT AS SENSITIVE AN ISSUE SINCE IT AFFECTS ONLY A SMALL SEGMENT OF THE AFGHAN POPULATION DIRECTLY. MISSION ESTIMATES THAT A LARGE PERCENTAGE OF THE PRICE INCREASES FOR PETROLEUM PRODUCTS WILL BE PASSED ON TO THE CONSUMER AND IMPORT CONTROLS WILL

NOT BE PUT INTO EFFECT.

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THE GOA'S ONLY "ACE IN THE HOLE" AMONG EXPORT ITEMS IS NATURAL GAS. THE ANTICIPATED PRICE INCREASE TO THE USSR WILL HELP OFFSET SOME OF THE INCREASED PRICES OF IMPORTS. THE GOA HAD PLANNED TO UTILIZE MORE OF ITS GAS INTERNALLY (96 PERCENT IS NOW EXPORTED) FOR FERTILIZER PRODUCTION AND CUT EXPORTS, BUT THE MINISTRY OF COMMERCE REPORTS THAT THIS PLAN HAS BEEN TEMPORARILY ABANDONED DUE TO THE OMINOUS ADVERSE BALANCE OF PAYMENTS SITUATION. THE GOA CONTINUES TO INCREASE ITS EXPORTS OF FRUITS AND NUTS. IN 1974 AGREEMENTS WERE SIGNED TO EXPORT THESE COMMODITIES TO IRAN AND IRAQ AND THE GOA CONTINUES TO EXPLORE THE POSSIBILITY OF EXPORTING THESE ITEMS TO OTHER COUNTRIES IN THE PERSIAN GULF AREA.

C. EFFECT ON LONGER RUN IMPORT-EXPORT POLICIES AND/OR COUNTRY'S OVERALL DEVELOPMENT STRATEGY. UNTIL THE PAST FEW MONTHS, AFGHANISTAN HAS BEEN, TO A GREAT EXTENT, INSULATED FROM THE ENERGY CRISIS AND ACCOMPANYING INFLATION. TRADE AGREEMENTS FOR ESSENTIAL COMMODITIES WERE SIGNED IN 1972 OR 1973 TO COVER A PERIOD OF SEVERAL YEARS AND AFGHANISTAN HAS CONTINUED TO PAY PRE-COTT PRICES FOR PETROLEUM PRODUCTS. LARGE GOA SUBSIDIES HAVE KEPT RETAIL PRICES FOR PRODUCTS SUCH AS SUGAR AND FERTILIZER UNREALISTICALLY LOW. ONLY RECENTLY, AS THESE AGREEMENTS NEAR EXPIRATION AND AS SUBSIDIES BECOME AN INCREASING FINANCIAL BURDEN, HAS THE MISSION NOTED A SENSE OF URGENCY IN THE GOA ABOUT THE FUTURE OF THE AFGHAN ECONOMY.

THE ENERGY CRISIS HAS PROVIDED THE INCENTIVE FOR THE GOA TO DEVELOP ITS OWN ENERGY RESOURCES. A NEW PETROLEUM LAW WAS RECENTLY PASSED SETTING THE GUIDELINES FOR OIL EXPLORATION

-EXPLORATION BY FOREIGN FIRMS. PLANS ARE ALSO UNDERWAY TO DEVELOP THE COUNTRY'S COAL RESOURCES AND TO DESULPHURIZE AND LIQUIFY NATURAL GAS FOR HEATING FUEL AND THERMAL-POWERED ELECTRICITY GENERATION. WOOD IS STILL THE COUNTRY'S MAIN HEATING FUEL AND WOOD RESOURCES ARE BEING DEPLETED RAPIDLY DUE TO AN INEFFECTUAL REFORESTATION PROGRAM.

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THE ABOVE PROJECTS ARE MEDIUM TO LONG TERM AND DEPEND TO A LARGE EXTENT ON FOREIGN ASSISTANCE FOR DEVELOPMENT. IN THE SHORTER RUN, THE GOA LOOKS TO THE AGRICULTURAL SECTOR (PARTICULARLY INCREASED COTTON EXPORTS) TO AMELIORATE ITS PROJECTED TRADE DEFICITS. INCREASED AGRICULTURAL PRODUCTION DEPENDS TO A LARGE EXTENT ON BETTER WATER MANAGEMENT AND CONTINUED USE OF FERTILIZERS AND IMPROVED SEEDS. EVEN WITH INCREASED AGRICULTURAL PRODUCTION, ACCESS TO EXPORT MARKETS REMAINS DIFFICULT. THE LUCRATIVE PERSIAN GULF MARKET REMAINS ALMOST OUT OF REACH DUE TO TRANSPORTATION

DIFFICULTIES. THERE ARE PLANS FOR AN AFGHAN RAILROAD TO TIE INTO THE IRANIAN SYSTEM BUT THIS IS A DECADE OFF AT BEST.

ANOTHER PROBLEM WITH EXPORTS OF AFGHAN AGRICULTURAL PRODUCTS IS THEIR INFERIOR QUALITY ON ARRIVAL IN EXPORT MARKETS. WHILE THE PRODUCE ITSELF IS GENERALLY EXCELLENT, POOR PICKING, SORTING, CLEANING AND PACKAGING PRACTICES COMBINE TO SUBVERT THE EXPORT VALUE.

THE GOA IS SHOWING INTEREST IN A PLAN FOR VERTICALLY INTEGRATED AGRO-BUSINESS SYSTEMS. THIS WOULD PRESUMABLY BRING AFGHAN AGRICULTURAL PRODUCTS UP TO WORLD STANDARDS AND ADDITIONALLY WOULD PROVIDE INCOME TO RURAL FARMERS AND LABORERS THROUGH USE OF LABOR-INTENSIVE PROCESSING FACILITIES. AGRO-BUSINESS SYSTEMS COULD BE DEVELOPED IN A FEW YEARS TIME (AGAIN WITH FOREIGN ASSISTANCE) AND WOULD PROVIDE SOME BALANCE OF PAYMENTS RELIEF.

OVERALL, THE MISSION FORECASTS A PERIOD OF ECONOMIC DIFFICULTY FOR AFGHANISTAN THROUGH THE EARLY 1980'S WITH SLOW GROWTH IN REAL GNP. SHORT-TERM SOLUTIONS SUCH AS DEBT RELIEF AND COMMODITY ASSISTANCE WILL BE SOUGHT AND GRANTED, BUT UNTIL THE COUNTRY BEGINS TO DEVELOP AND UTILIZE ITS OWN ENERGY RESOURCES AND REACH ITS POTENTIAL IN THE AGRICULTURAL SECTOR, THE ECONOMY WILL REMAIN STAGNANT.

D. COMMITMENTS BY OPEC: SEE KABUL 7993, KABUL 6041, CONFIDENTIAL

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KABUL 4681, KABUL 4774 AND KABUL 3457.
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Message Attributes

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Concepts: LESS DEVELOPED COUNTRIES, BALANCE OF PAYMENTS
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Copy: SINGLE
Draft Date: 07 JAN 1975
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Disposition Approved on Date:
Disposition Authority: SmithRJ
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